

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Ontwa	County Cass
Fiscal Year End 03/31/07	Opinion Date 09/19/07	Date Audit Report Submitted to State 09/26/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

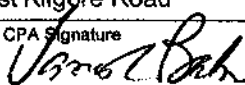
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe) SAS 112 report	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Siegfried Crandall, PC		Telephone Number (269)381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
		Zip 49002	
Authorizing CPA Signature 		Printed Name James C. Baker	License Number 1101010743

*Township of Ontwa*  
*Cass County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended March 31, 2007*

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Township of Ontwa, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Ontwa, Michigan, as of March 31, 2007, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Ontwa, Michigan, as of March 31, 2007, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information on pages 23 through 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Township of Ontwa has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Siegfried Crandall P.C.*

September 19, 2007

## **BASIC FINANCIAL STATEMENTS**

**Township of Ontwa**  
**STATEMENT OF NET ASSETS**  
March 31, 2007

	<b><u>Governmental activities</u></b>	<b><u>Business- type activities</u></b>	<b><u>Totals</u></b>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 455,567	\$ 1,270,702	\$ 1,726,269
Receivables, net	<u>98,613</u>	<u>641,640</u>	<u>740,253</u>
Total current assets	<u>554,180</u>	<u>1,912,342</u>	<u>2,466,522</u>
Noncurrent assets:			
Restricted cash - contract covenant accounts	-	1,665,761	1,665,761
Receivables, noncurrent	-	4,403,247	4,403,247
Capital assets not being depreciated - land	7,350	-	7,350
Capital assets, being depreciated, net of accumulated depreciation	444,340	10,580,781	11,025,121
Deferred charges	<u>-</u>	<u>144,706</u>	<u>144,706</u>
Total noncurrent assets	<u>451,690</u>	<u>16,794,495</u>	<u>17,246,185</u>
Total assets	<u>1,005,870</u>	<u>18,706,837</u>	<u>19,712,707</u>
<b>LIABILITIES</b>			
Current liabilities:			
Payables	38,363	169,746	208,109
Contracts payable	<u>-</u>	<u>581,610</u>	<u>581,610</u>
Total current liabilities	38,363	751,356	789,719
Long-term obligations - contracts payable	<u>-</u>	<u>7,388,164</u>	<u>7,388,164</u>
Total liabilities	<u>38,363</u>	<u>8,139,520</u>	<u>8,177,883</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	451,690	2,611,007	3,062,697
Restricted for debt service	-	6,348,526	6,348,526
Unrestricted	<u>515,817</u>	<u>1,607,784</u>	<u>2,123,601</u>
Total net assets	<u>\$ 967,507</u>	<u>\$ 10,567,317</u>	<u>\$ 11,534,824</u>

See notes to the financial statements

**Township of Ontwa**  
**STATEMENT OF ACTIVITIES**  
Year ended March 31, 2007

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for services</u>	<u>Operating/ capital grants and contributions</u>
Governmental activities:			
Legislative	\$ 12,867	\$ -	\$ -
General government	256,778	29,844	-
Public safety	346,319	15,172	2,539
Public works	104,361	24,760	3,435
Health and welfare	174,547	-	-
Recreation and culture	545	-	-
Community and economic development	10,115	7,300	-
Total governmental activities	<u>905,532</u>	<u>77,076</u>	<u>5,974</u>
Business-type activities:			
Sewer	969,584	488,389	1,687,877
Building inspection	82,298	71,937	-
Total business-type activities	<u>1,051,882</u>	<u>560,326</u>	<u>1,687,877</u>
Totals	<u>\$ 1,957,414</u>	<u>\$ 637,402</u>	<u>\$ 1,693,851</u>

General revenues:

Taxes  
State grants  
Cable franchise fees  
Investment return

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

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**Net (expenses) revenues and changes in net assets**

<b><u>Governmental activities</u></b>	<b><u>Business-type activities</u></b>	<b><u>Totals</u></b>
\$ (12,867)		\$ (12,867)
(226,934)		(226,934)
(328,608)		(328,608)
(76,166)		(76,166)
(174,547)		(174,547)
(545)		(545)
<u>(2,815)</u>		<u>(2,815)</u>
<u>(822,482)</u>		<u>(822,482)</u>
-	\$ 1,206,682	1,206,682
<u>-</u>	<u>(10,361)</u>	<u>(10,361)</u>
-	1,196,321	1,196,321
<u>(822,482)</u>	<u>1,196,321</u>	<u>373,839</u>
497,671	-	497,671
323,175	-	323,175
36,797	-	36,797
<u>32,796</u>	<u>84,673</u>	<u>117,469</u>
<u>890,439</u>	<u>84,673</u>	<u>975,112</u>
67,957	1,280,994	1,348,951
<u>899,550</u>	<u>9,286,323</u>	<u>10,185,873</u>
<u>\$ 967,507</u>	<u>\$ 10,567,317</u>	<u>\$ 11,534,824</u>

See notes to the financial statements



**Township of Ontwa**  
**BALANCE SHEET - governmental funds**  
 March 31, 2007

	<u>General</u>	<u>Police</u>	<u>Ambulance</u>	<u>Total</u>
<b>ASSETS</b>				
Cash	\$ 455,567	\$ -	\$ -	\$ 455,567
Receivables, net	<u>74,699</u>	<u>11,957</u>	<u>11,957</u>	<u>98,613</u>
Total assets	<u>\$ 530,266</u>	<u>\$ 11,957</u>	<u>\$ 11,957</u>	<u>\$ 554,180</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities - payables	\$ 14,449	\$ 11,957	\$ 11,957	\$ 38,363
Fund balances - unreserved, undesignated	<u>515,817</u>	<u>-</u>	<u>-</u>	<u>515,817</u>
Total liabilities and fund balances	<u>\$ 530,266</u>	<u>\$ 11,957</u>	<u>\$ 11,957</u>	<u>\$ 554,180</u>
Total fund balances				\$ 515,817
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 4) are different because:				
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.				<u>451,690</u>
Net assets of <i>governmental activities</i>				<u>\$ 967,507</u>

See notes to the financial statements

**Township of Ontwa****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - governmental funds**

Year ended March 31, 2007

	<u>General</u>	<u>Police</u>	<u>Ambulance</u>	<u>Total</u>
<b>REVENUES</b>				
Taxes	\$ 148,577	\$ 174,547	\$ 174,547	\$ 497,671
State grants	329,149	-	-	329,149
Fines and forfeitures	15,172	-	-	15,172
Licenses and permits	44,783	-	-	44,783
Charges for services	61,718	-	-	61,718
Interest and rentals	32,796	-	-	32,796
Total revenues	<u>632,195</u>	<u>174,547</u>	<u>174,547</u>	<u>981,289</u>
<b>EXPENDITURES</b>				
Legislative	12,867	-	-	12,867
General government	245,306	-	-	245,306
Public safety	171,772	174,547	-	346,319
Public works	125,906	-	-	125,906
Health and welfare	-	-	174,547	174,547
Recreation and culture	545	-	-	545
Community and economic development	10,115	-	-	10,115
Capital outlay	46,004	-	-	46,004
Total expenditures	<u>612,515</u>	<u>174,547</u>	<u>174,547</u>	<u>961,609</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	19,680	-	-	19,680
<b>FUND BALANCES - BEGINNING</b>	<u>496,137</u>	<u>-</u>	<u>-</u>	<u>496,137</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 515,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 515,817</u>
Net change in fund balances - total governmental funds				\$ 19,680
Amounts reported for <i>governmental activities</i> in the statement of activities (page 5) are different because:				
Capital assets:				
Additions				74,939
Provision for depreciation				(18,862)
Decrease in deferred revenue				<u>(7,800)</u>
Change in net assets of <i>governmental activities</i>				<u>\$ 67,957</u>

See notes to the financial statements

**Township of Ontwa**  
**STATEMENT OF NET ASSETS - proprietary funds**  
March 31, 2007

	<b>Business-type activities</b>		
	<b>Enterprise funds</b>		
	<b>Sewer</b>	<b>Non-major</b>	<b>Totals</b>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 1,215,930	\$ 54,772	\$ 1,270,702
Receivables	641,640	-	641,640
Total current assets	1,857,570	54,772	1,912,342
Noncurrent assets:			
Restricted cash - contract covenant accounts	1,665,761	-	1,665,761
Receivables, non-current	4,403,247	-	4,403,247
Capital assets, net of accumulated depreciation	10,580,781	-	10,580,781
Deferred charges	144,706	-	144,706
Total noncurrent assets	16,794,495	-	16,794,495
Total assets	18,652,065	54,772	18,706,837
<b>LIABILITIES</b>			
Current liabilities:			
Payables	162,441	7,305	169,746
Contracts payable	581,610	-	581,610
Total current liabilities	744,051	7,305	751,356
Long-term liabilities - contracts payable	7,388,164	-	7,388,164
Total liabilities	8,132,215	7,305	8,139,520
<b>NET ASSETS</b>			
Invested in capital assets	2,611,007	-	2,611,007
Restricted for debt service	6,348,526	-	6,348,526
Unrestricted	1,560,317	47,467	1,607,784
Total net assets	\$ 10,519,850	\$ 47,467	\$ 10,567,317

See notes to the financial statements

**Township of Ontwa****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET****ASSETS - proprietary funds**

Year ended March 31, 2007

	<i>Business-type activities</i>		
	<i>Enterprise funds</i>		
	<i>Sewer</i>	<i>Non-major</i>	<i>Totals</i>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 480,289	\$ 71,937	\$ 552,226
Other	8,100	-	8,100
Total operating revenues	<u>488,389</u>	<u>71,937</u>	<u>560,326</u>
<b>OPERATING EXPENSES</b>			
Utilities	142,687	4,550	147,237
Contracted services	114,654	-	114,654
Personnel costs	24,206	69,580	93,786
Professional fees	21,755	1,240	22,995
Telephone and other	11,989	6,928	18,917
Depreciation	<u>235,863</u>	<u>-</u>	<u>235,863</u>
Total operating expenses	<u>551,154</u>	<u>82,298</u>	<u>633,452</u>
Operating loss	<u>(62,765)</u>	<u>(10,361)</u>	<u>(73,126)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Hook-up charges	439,179	-	439,179
Capacity purchase by local unit of government	1,004,425	-	1,004,425
Interest income	326,488	2,458	328,946
Interest expense	<u>(418,430)</u>	<u>-</u>	<u>(418,430)</u>
Total nonoperating revenues	<u>1,351,662</u>	<u>2,458</u>	<u>1,354,120</u>
<b>CHANGES IN NET ASSETS</b>	<u>1,288,897</u>	<u>(7,903)</u>	<u>1,280,994</u>
<b>NET ASSETS - BEGINNING</b>	<u>9,230,953</u>	<u>55,370</u>	<u>9,286,323</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 10,519,850</u>	<u>\$ 47,467</u>	<u>\$ 10,567,317</u>

See notes to the financial statements

**Township of Ontwa**  
**STATEMENT OF CASH FLOWS - proprietary funds**  
Year ended March 31, 2007

	<b>Business-type activities</b>		
	<b>Enterprise funds</b>		
	<b>Sewer</b>	<b>Non-major</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 486,378	\$ 71,937	\$ 558,315
Payments to vendors and suppliers	(276,894)	(17,412)	(294,306)
Payments to employees	(22,696)	(65,896)	(88,592)
Net cash provided by (used in) operating activities	186,788	(11,371)	175,417
<b>CASH FLOWS FROM NON-CAPITAL INVESTING AND FINANCING ACTIVITIES</b>			
Advance to Ambulance Authority	(70,000)	-	(70,000)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Special assessment interest received	545,610	-	545,610
Special assessment principal received	250,047	-	250,047
Capacity buy-in by local unit of government	1,004,425	-	1,004,425
Principal reduction of long-term debt	(542,360)	-	(542,360)
Interest paid	(364,394)	-	(364,394)
Net cash provided by capital and related financing activities	893,328	-	893,328
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	67,803	2,458	70,261
<b>NET INCREASE (DECREASE) IN CASH</b>	1,077,919	(8,913)	1,139,006
<b>CASH - BEGINNING</b> (including restricted cash of \$1,634,767 in the Sewer Fund)	1,803,772	63,685	1,867,457
<b>CASH - ENDING</b> (including restricted cash of \$1,665,761 in the Sewer Fund)	\$ 2,881,691	\$ 54,772	\$ 3,006,463

See notes to the financial statements

**Township of Ontwa****STATEMENT OF CASH FLOWS - *proprietary funds* (Continued)***Year ended March 31, 2007*

	<b><i>Business-type activities</i></b>		
	<b><i>Enterprise funds</i></b>		
	<b><i>Sewer</i></b>	<b><i>Non-major</i></b>	<b><i>Totals</i></b>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating loss	\$ (62,765)	\$ (10,361)	\$ (73,126)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	235,863	-	235,863
Decrease in receivables, net	7,524	-	7,524
Increase (decrease) in payables	6,166	(1,010)	5,156
Net cash provided by (used in) operating activities	<u>\$ 186,788</u>	<u>\$ (11,371)</u>	<u>\$ 175,417</u>

*See notes to the financial statements*

***Township of Ontwa***

**STATEMENT OF FIDUCIARY NET ASSETS - *Agency Fund***

*March 31, 2007*

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**ASSETS**

Cash	\$ <u>62,824</u>
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**LIABILITIES**

Due to other governmental units	\$ <u>62,824</u>
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*See notes to the financial statements*

**Township of Ontwa**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Township of Ontwa, Cass County, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

*a) Reporting entity:*

The Township is governed by an elected board of trustees. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

The Township is a sponsoring member of the Township of Ontwa-Edwardsburg Police Department and the Township of Ontwa-Edwardsburg Ambulance Service. The Township appoints two members to each joint venture's governing board, and, the Township provides annual financial support to each entity. The Township does not retain an equity interest in either entity, and, accordingly, these entities are not considered includable in these financial statements. Financial information of the joint ventures is available from their respect offices in Edwardsburg, Michigan.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.



**Township of Ontwa**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Police Fund accounts for special voted taxes levied to support operating costs of police services.

The Ambulance Fund accounts for special voted taxes levied to support operating costs of ambulance services.

The Township reports the following major proprietary fund:

The Sewer Fund accounts for the operation of the Township's sewage system and treatment plant.

The Township reports a single agency fund - Tax Collection Fund, which accounts for property taxes collected on behalf of other local units of government.

**Township of Ontwa**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted as they are needed.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits and investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

*ii) Receivables and payables* - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

*iii) Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Township of Ontwa**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*d) Assets, liabilities, and net assets or equity (continued):*

*iii) Capital assets (continued):*

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 50 years
Furniture, fixtures, and equipment	5 - 15 years
Roads	20 years
Sewer system	50 years

*iv) Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

*v) Property tax recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the District. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The Township incurred the following significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public works	Highways and streets	\$ 92,000	\$ 112,276	\$ 20,276
General	Capital outlay	Capital outlay	21,000	46,004	25,004
Police	Public safety	Police	164,967	174,547	9,580
Ambulance	Health & welfare	Ambulance	164,967	174,547	9,580

**Township of Ontwa**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 - CASH:**

The Township's cash as shown in the accompanying financial statements are as follows:

	<u>Governmental activities</u>	<u>Business- type activities</u>	<u>Fiduciary</u>	<u>Total</u>
Cash	\$ 424,807	\$ 1,270,702	\$ 62,824	\$ 1,758,333
Restricted cash	<u>-</u>	<u>1,665,761</u>	<u>-</u>	<u>1,665,761</u>
Totals	<u>\$ 424,807</u>	<u>\$ 2,936,463</u>	<u>\$ 62,824</u>	<u>\$ 3,424,094</u>

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. All deposits are with a single financial institution in the State of Michigan.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. At March 31, 2007, \$3,723,956 of the Township's bank balances of \$3,923,956 was exposed to custodial credit risk because it was uninsured. The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4 - RECEIVABLES:**

Receivables as of year end for the government's individual funds are as follows. All amounts shown are considered fully collectible.

	<u>Taxes</u>	<u>Accounts</u>	<u>Inter- govern- mental</u>	<u>Special assess- ments</u>	<u>Interest</u>	<u>Total</u>
Governmental funds:						
General	\$12,522	\$ 9,482	\$ 52,695	\$ -	\$ -	\$ 74,699
Police	11,957	-	-	-	-	11,957
Ambulance	11,957	-	-	-	-	11,957
	<u>\$36,436</u>	<u>\$ 9,482</u>	<u>\$ 52,695</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,613</u>
Proprietary funds - sewer	<u>\$ -</u>	<u>\$ 65,364</u>	<u>\$280,807</u>	<u>\$4,516,209</u>	<u>\$182,507</u>	<u>\$5,044,887</u>
Due beyond one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$228,384</u>	<u>\$4,174,863</u>	<u>\$ -</u>	<u>\$4,403,247</u>

**Township of Ontwa**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity of the Township for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Depreciable assets:				
Building	\$ 384,181	\$ -	\$ -	\$ 384,181
Equipment	42,978	50,149	-	93,127
Streets	46,307	24,790	-	71,097
Subtotal	<u>473,466</u>	<u>74,939</u>	<u>-</u>	<u>548,405</u>
Less accumulated depreciation for:				
Building	(61,469)	(8,434)	-	(69,903)
Equipment	(21,997)	(7,183)	-	(29,180)
Streets	(1,737)	(3,245)	-	(4,982)
Subtotal	<u>(85,203)</u>	<u>(18,862)</u>	<u>-</u>	<u>(104,065)</u>
Total capital assets being depreciated, net	388,263	56,077	-	444,340
Other assets - land	<u>7,350</u>	<u>-</u>	<u>-</u>	<u>7,350</u>
Governmental activities capital assets, net	<u>\$ 395,613</u>	<u>\$ 56,077</u>	<u>\$ -</u>	<u>\$ 451,690</u>
Business-type activities:				
Sewer system	\$11,793,158	\$ -	\$ -	\$11,793,158
Less accumulated depreciation	<u>(976,514)</u>	<u>(235,863)</u>	<u>-</u>	<u>(1,212,377)</u>
Business-type activities capital assets, net	<u>\$10,816,644</u>	<u>\$ (235,863)</u>	<u>\$ -</u>	<u>\$10,580,781</u>

Depreciation expense was charged to governmental activities programs of the Township as follows:

General government	\$ 15,617
Public works	<u>3,245</u>
	<u>\$ 18,862</u>

**Township of Ontwa**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 - PAYABLES:**

Payables as of year end for the government's individual funds, are as follows.

	<u>Accounts</u>	<u>Payroll</u>	<u>Inter- govern- mental</u>	<u>Interest</u>	<u>Total</u>
Governmental funds:					
General	\$ 6,840	\$ 7,609	\$ -	\$ -	\$ 14,449
Police	-	-	11,957	-	11,957
Ambulance	-	-	11,957	-	11,957
Total	<u>\$ 6,840</u>	<u>\$ 7,609</u>	<u>\$ 23,914</u>	<u>\$ -</u>	<u>\$ 38,363</u>
Proprietary funds:					
Sewer	\$ 6,171	\$ 1,156	\$ 11,650	\$ 143,464	\$ 162,441
Non-major proprietary fund	700	6,605	-	-	7,305
Total	<u>\$ 6,871</u>	<u>\$ 7,761</u>	<u>\$ 11,650</u>	<u>\$ 143,464</u>	<u>\$ 169,746</u>

**NOTE 7 - LONG-TERM OBLIGATIONS:**

Long-term obligations consist of the following contracts payable to Cass County, issued in connection with sewer system improvements and expansion. All debt is secured by the full faith and credit of the Township.

	<u>Face amount</u>	<u>Due in one year</u>
2000 \$10,750,000 contract, bearing interest at 5.00% to 7.00%, due in annual installments of \$300,000 to \$800,000, plus interest, through May 2019 originally, now May 2008	\$ 500,000	\$500,000
2004 \$1,097,124 contract, bearing interest at 4.00% to 4.90%, due in annual installments of \$100,000 to \$150,000, plus interest, through May 2024	1,054,764	42,360
2005 \$6,565,000 refunding contract, bearing interest at 3.50% to 4.75%, due in annual installments of \$485,000 to \$640,000, beginning in May 2008, plus interest, through May 2019	<u>6,565,000</u>	-
	<u>\$8,119,764</u>	542,360
Call premium on refinanced contract, due May 2007		<u>39,250</u>
		<u>\$581,610</u>

**Township of Ontwa**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 8 - LONG-TERM OBLIGATIONS (Continued):**

Changes in long-term obligations during the year ended March 31, 2007, were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Proprietary fund - sewer				
2000 \$10,750,000 contract payable	\$1,000,000	\$ -	\$ (500,000)	\$ 500,000
2004 \$1,097,124 contract payable	1,097,124	-	(42,360)	1,054,764
2005 \$6,565,000 refinancing contract payable	6,565,000	-	-	6,565,000
	<u>8,662,124</u>	<u>-</u>	<u>(542,360)</u>	<u>8,119,764</u>
Contract discount	(23,473)		8,294	(15,179)
Contract premium	153,146	-	(19,469)	133,677
Call premium on refinanced contract	39,250			39,250
Loss on refunded contract	<u>(356,654)</u>	<u>-</u>	<u>48,916</u>	<u>(307,738)</u>
	<u>(187,731)</u>	<u>-</u>	<u>37,741</u>	<u>(149,990)</u>
	<u>\$8,474,393</u>	<u>\$ -</u>	<u>\$ (504,619)</u>	<u>\$7,969,774</u>

The refinancing of the 2000 contract in 2006 included a call premium that is due in May 2007.

At March 31, 2007, debt service requirements were as follows:

<u>Years ending March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Call premium</u>
2008	\$ 542,360	\$ 348,994	\$ 39,250
2009	544,478	313,132	-
2010	547,950	293,153	-
2011	537,950	272,660	-
2012	577,950	251,277	-
2013 - 2017	3,002,110	890,378	-
2018 - 2022	2,182,700	214,546	-
2023 - 2025	<u>184,266</u>	<u>13,089</u>	<u>-</u>
	<u>\$ 8,119,764</u>	<u>\$ 2,597,229</u>	<u>\$ 39,250</u>

***Township of Ontwa***  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 9 - RISK MANAGEMENT:**

The Township is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$7,000,000, building contents and workers' compensation, and casualty are managed through purchased commercial insurance. For all such risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

The Township is involved in sewer special assessment appeals by two mobile home park owners. The total amount under appeal is approximately \$410,000. The Township and outside counsel believe that there is no merit to the suit and intend to defend it vigorously. Based on the facts known to date, it is not possible to determine the likelihood of an unfavorable outcome, and, accordingly, no provision for any liability that may result has been recorded in the accompanying financial statements.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**Township of Ontwa**  
**BUDGETARY COMPARISON SCHEDULE - General Fund**  
Year ended March 31, 2007

	<b><i>Original budget</i></b>	<b><i>Amended budget</i></b>	<b><i>Actual</i></b>	<b><i>Variance favorable (unfavorable)</i></b>
<b>REVENUES</b>				
Taxes	\$ 139,746	\$ 139,746	\$ 148,577	\$ 8,831
State grants	313,100	313,100	329,149	16,049
Fines and forfeitures	13,000	13,000	15,172	2,172
Licenses and permits	31,240	31,240	44,783	13,543
Charges for services	17,825	17,825	61,718	43,893
Interest and rentals	2,000	2,000	32,796	30,796
Total revenues	<u>516,911</u>	<u>516,911</u>	<u>632,195</u>	<u>115,284</u>
<b>EXPENDITURES</b>				
Legislative	<u>9,500</u>	<u>9,500</u>	<u>12,867</u>	<u>(3,367)</u>
General government:				
Supervisor	33,460	33,460	22,973	10,487
Elections	12,400	12,400	10,351	2,049
Assessor	33,200	33,200	27,087	6,113
Clerk	25,300	25,300	22,395	2,905
Board of Review	3,100	3,100	269	2,831
Treasurer	25,300	25,300	23,519	1,781
Hall and grounds	20,850	20,850	18,020	2,830
Cemetery	1,000	1,000	1,000	-
Other	<u>101,440</u>	<u>101,440</u>	<u>119,692</u>	<u>(18,252)</u>
Total general government	<u>256,050</u>	<u>256,050</u>	<u>245,306</u>	<u>10,744</u>
Public safety - police	<u>173,740</u>	<u>173,740</u>	<u>171,772</u>	<u>1,968</u>
Public works:				
Highways and streets	92,000	92,000	112,276	(20,276)
Solid waste management	10,000	10,000	7,248	2,752
Street lighting	<u>6,000</u>	<u>6,000</u>	<u>6,382</u>	<u>(382)</u>
Total public works	<u>108,000</u>	<u>108,000</u>	<u>125,906</u>	<u>(17,906)</u>

**Township of Ontwa****BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2007

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	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
Recreation and culture	\$ 5,000	\$ 5,000	\$ 545	\$ 4,455
Community and economic development - planning and zoning	14,750	14,750	10,115	4,635
Capital outlay	21,000	21,000	46,004	(25,004)
Total expenditures	588,040	588,040	612,515	(24,475)
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(71,129)	(71,129)	19,680	90,809
<b>FUND BALANCES - BEGINNING</b>	496,137	496,137	496,137	-
<b>FUND BALANCES - ENDING</b>	<u>\$ 425,008</u>	<u>\$ 425,008</u>	<u>\$ 515,817</u>	<u>\$ 90,809</u>

**Township of Ontwa****BUDGETARY COMPARISON SCHEDULE - Police Fund**

Year ended March 31, 2007

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	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Taxes	\$ 164,967	\$ 164,967	\$ 174,547	\$ 9,580
<b>EXPENDITURES</b>				
Public safety	<u>164,967</u>	<u>164,967</u>	<u>174,547</u>	<u>(9,580)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	-	-	-
<b>FUND BALANCES - BEGINNING</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Township of Ontwa****BUDGETARY COMPARISON SCHEDULE - Ambulance Fund**

Year ended March 31, 2007

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	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Taxes	\$ 164,967	\$ 164,967	\$ 174,547	\$ 9,580
<b>EXPENDITURES</b>				
Health and welfare	<u>164,967</u>	<u>164,967</u>	<u>174,547</u>	<u>(9,580)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	-	-	-
<b>FUND BALANCES - BEGINNING</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Board of Trustees  
Township of Ontwa  
Cass County, Michigan**

In planning and performing our audit of the financial statements of Township of Ontwa, Cass County, Michigan, as of and for the year ended March 31, 2007, in accordance with U.S. generally accepted auditing standards, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they had been implemented, but it did not include procedures to test the operating effectiveness of controls, and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be significant deficiencies and deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the Township's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

- The payroll module has withheld incorrect amounts of Social Security and Medicare from the pay of certain employees in 2005 and in 2006. The correct amounts were paid into Social Security and Medicare, however the 2005 and 2006 W-2 and W-3 reflect the actual incorrect amounts withheld. The reason for improper withholding should be investigated, so as to prevent or detect errors in payroll processing.
- Invoices are not annotated for approval. Evidence of approval documents accountability for expenditures, and assists in demonstrating effective segregation of duties.
- The annual budget is not adopted until after the start of the fiscal year. State statutes require that the annual budget be in place (adopted) prior to the first day of the fiscal year (April 1).

- Budget amendments are not approved for changes in the level of revenues and expenditures. Timely amendment of the budget demonstrates fiscal awareness of changes in available financial resources and/or intended uses of such resources.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township's internal control. We believe that the following deficiencies constitute material weaknesses.

- Two automated general ledgers are maintained, one by the Clerk and one by the Treasurer, yet neither can be reconciled to each other and neither can produce complete and accurate financial statements. The Clerk's general ledger is incomplete and out of balance. Recorded asset and liability accounts are grossly misstated and have not been reconciled to underlying support, and, certain asset and liability accounts balances are missing. The Treasurer's general ledger is in Quicken, a checkbook program. The Treasurer's ledger was found to be complete and accurate all checking account receipts and disbursements. However, certificates of deposit purchased during the year (and on hand as of the end of the year) were not recorded in asset accounts, so as to establish accountability over such assets.

State law places responsibility for an accurate and complete general ledger with the Clerk. The Township should obtain the resources necessary to allow the Clerk to resume responsibility for a general ledger that is current, accurate and complete.

- Special assessments principal and interest collections are not consistently recorded in separate accounts, so as to assist in supporting changes in special assessments receivable. The annual billings sent to property owners are not produced from the special assessment application, and therefore lack detail information regarding the principal and interest portion due, installment number, and, payoff information. Additional principal payments and payoff payments are not identified in sufficient detail so as to assist in proper recording of principal and interest. Given the long-term nature of the assessments, the Township should evaluate whether the current assessment program is adequate meet its billing and recordkeeping needs.
- Detail reports of special assessments outstanding from the special assessment billing program are not prepared. Such reports assist in supporting the current receivable balance to be reported, and assist in evaluating assessments added, collections (including principal and interest), and adjustments.
- Tax Collection Fund receipts and disbursements have not been recorded in a manner that documents the agency nature of the fund, By recording receipts as amounts due to specific taxing authorities, including the Township, and, recording disbursements against such "due to" amounts, it is possible to identify for whom the fund is holding monies. Disbursements should be made as soon as possible, so as to limit ongoing accountability.

- Policies and procedures to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to classify receipt and use of restricted contributions, recording receivables and payables, and changes in fixed assets, were not in place. As in prior years, the Township has relied upon our firm as auditor to identify and develop material adjustments necessary to convert cash basis financial statements into full accrual financial statements and to prepare the financial statements and appropriate disclosures. This service is allowable under current auditing standards and ethical guidelines, and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an organization (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. We recommend that management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting financial statement preparation services with its auditor.

This report is intended solely for the information and use of the Township Board of Trustees, management, others within the Township and Department of Treasury of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

*Sigfried Crandall P.C.*

September 19, 2007